OA
81
MT

Montana video gambling
machine dial-up issues

4627

OA
81
MT

Montana State Library
3 0864 1006 9082 8

MONTANA LEGISLATIVE COUNCIL
LIBRARY
4627

STATE OF MONTANA

DEPARTMENT OF JUSTICE

GAMBLING CONTROL DIVISION

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 4
DATE 1-31-95
BILL NO. SB 187

Joseph P. Mazurek
Attorney General

2687 Airport Road
PO Box 201424
Helena, MT 59620-1424

MONTANA VIDEO GAMBLING MACHINE DIAL-UP ISSUES

Study Group Report
Compiled by Wilbur W. Rehmann
January 19, 1995

TABLE OF CONTENTS

page

EXECUTIVE SUMMARY 2

GLOSSARY 4

DESCRIPTION OF A DIAL-UP SYSTEM 6

STAFFING REQUIREMENTS 10

TELECOMMUNICATIONS COST ESTIMATES 12

GAMBLING INDUSTRY OVERVIEW 13

GCD TAX AND AUDIT FUNCTIONS 17

OTHER STATES AND PROVINCES 19

DIAL-UP COST ESTIMATES 22

GCD BUDGET PROJECTIONS 24

APPENDIX
A: Department of Justice outline of Dial-up review and study group.
B: Proposed Dial-up bill.
C: Brief history of gambling in Montana.
D: Machine upgrade costs.
E: Manufacturer market share.
F: Request for Preliminary Planning Information

Tel. (406) 442-7325

EXECUTIVE SUMMARY

At the recommendation of the Legislative Auditor, Attorney General Joe Mazurek instructed the Gambling Control Division to begin examining the issues raised in the January 1994 Performance Audit Report on the *Regulation and Monitoring of Video Gambling Machines.*

The Audit report identified the following problems and made the following recommendation:

I. The Division needs to inspect machines more frequently and needs to include EPROM testing in all inspections. (The Division currently is able to inspect machines once every seven years.)

II. The current tax reporting system does not work as intended; 28.7 to 38.4 percent of gambling establishments pay an incorrect amount of tax on video gambling machine proceeds and an additional 18 to 22 percent of other establishments could be paying an improper amount. Given the current staffing levels, we project it will take the Division 65 years to complete a field audit of all establishments.

AUDIT RECOMMENDATION - One type of automated system capable of monitoring video gambling activities and revenues is a dial-up system. This system requires a central computer to "dial-out" to gambling machines on a scheduled basis (every 24 hours) in order to obtain pay and revenue statistics. This would also improve the integrity of video gambling by ensuring that both the public and the gambling industry are protected and by enhancing the accountability of public funds.

The Division began a comprehensive review of automated accounting and reporting systemsin the summer of 1994 and staff made site visits to South Dakota and the Province of Saskatchewan, two jurisdictions where automated systems are being used to monitor video gambling machine play and to account for tax revenues.

The Division's review also examined the gambling industry in Montana and the cost associated with installing a dial-up system -- both to the state and to the private operator or establishment.

This report shows that:

- Technology, both hardware and software, exists to implement a dial-up system in Montana without having to create an entirely new system. There are several large manufacturers who have installed operating dial-up systems in a number of states and provinces.

- The security and integrity of the data collected can be absolutely assured through a dial-up system.

- Dial-up is a cost effective way to monitor and regulate video gambling and collect taxes.

Estimated costs associated with a dial-up system are summarized as follows:

•	***Central system (state owned)***	**- Start-up costs**		**$1.3 million**
		- Annual costs		**$ 477,920**
•	***Network***	**- Start-up costs**		**$ 180,000**
			Low	**High**
•	***Establishment***	**- Start-up costs**	**upgrade $350**	**$700**
			modem $277	**$1557**
		- Annual phone line costs	**$312**	

	Low	High
All estab. (15,000 VGM, 1,700 locations)		
Total start-up costs	**$5.7million**	**$13.1million**

The gambling industry in Montana generated over $200.3 million in gross income from video gambling machines in FY 1994 and in the first quarter of FY 1995, tax revenues totaled $8 million, up from $7.4 million a year ago in the same quarter. By comparison, total video gambling machine tax revenue in all of 1988 was $10 million. Gambling is a growth industry in Montana. In FY 1994, eight video gambling machines generated over $100,000 each and 16 casinos (all with 20 machines) had a gross machine income of more than $1million each. Another 104 casinos had a gross machine income of over $500,000 each from machines.

Implementing a dial-up automated accounting and reporting system will provide better and more accurate information and ensure compliance with the laws of Montana. To do the job by hand would take another 25 employees.

The system can be implemented and paid for with existing gambling revenue. No new taxes are necessary. The video gambling machine modifications necessary to "hook-up" to the central system could require a small reinvestment on the part of the owner of between $300 - $600 per machine, less than 10% of the small (1 - 5 machines) operator's annual average machine income from one machine bringing in $6,500. It will take an even smaller reinvestment, about 3%, from a 20 machine establishment based on the average annual income of $24,000 per machine.

Everyone benefits from adopting automation:

- **The state receives accurate and timely data to fullfill its regulatory and revenue responsibilities.**
- **Video machine owners have accurate and quick records for business purposes.**
- **The gambling public is assured of fair play at legal odds.**
- **The taxpayers are assured that the gambling industry is paying its fair share of taxes.**

Glossary of Terms:

VGM	This stands for Video Gambling Machine and is the actual video poker/keno machine itself.
Site Controller	A communication device, or "black box," located in each establishment that provides for automated billing and cash ticket validation. The site controller communicates with the central computer system. Cash ticket validation can prevent forgery. Site controllers may or may not be needed, depending on the system selected.
Central System	The main computer, located in Helena and used to poll the VGMs, store the data, print invoices, print reports, etc.
Meters	Each VGM has hard (mechanical) and soft (electronic) meters that are used to count usage. Hard meters are similar to the odometer in a car. They are simple mechanical counters. Soft meters are counters that are part of the computer program and actually reside in the VGM's memory. They are susceptible to being reset by static electricity, machine repairs and maintenance.
EPROMS	Erasable Programmable Read Only Memory. EPROMS are memory chips used to store game programs. Machine manufacturers can make major changes in the way a machine behaves by changing the EPROMS.

INTRODUCTION:

The Department of Justice is proposing to study and implement an automated accounting and reporting system, commonly called "dial-up," to more efficiently ensure that gambling establishments pay the correct video gambling machine tax and that machine play is fair and legal.

Concern over the fairness and integrity of tax collection and machine play was raised by the Legislative Auditor in the January 1994 Performance Audit Report entitled, Regulation and Monitoring of Video Gambling Machines. The Auditor's findings and recommendations are summarized below:

I. The Division needs to inspect machines more frequently and needs to include EPROM testing in all inspections. (The Division currently is able to inspect each machine once every seven years.)

II. The current tax reporting system does not work as intended; 28.7 to 38.4 percent of gambling establishments pay an incorrect amount of tax on video gambling machine proceeds and an additional 18 to 22 percent of other establishments could be paying an improper amount. Given the current staffing levels we project it will take the Division 65 years to complete a field audit of all establishments. The following concerns were identified in the audit:

1. Returns are not always properly completed and mathematical errors exist;

2. Documentation of gambling machine income is often missing and inadequate;

3. All machine play is unaccounted for;

4. Mechanical and electronic meters repeatedly do not balance;

5. Frequent machine service is apparent; and,

6. Often the correct tax is not paid by gambling establishments.

AUDIT RECOMMENDATION - One type of automated system capable of monitoring video gambling activities and revenues is a dial-up system. This system requires a central computer to "dial-out" to gambling machines on a scheduled basis (every 24 hours) in order to obtain pay and revenue statistics. This would also improve the integrity of video gambling by ensuring that both the public and the gambling industry are protected and by enhancing the accountability of public funds.

AUDIT ALTERNATIVE (ADDITIONAL STAFF) - The Auditor noted that if the Department did not propose a dial-up accounting and reporting system, it would be necessary to add 23 FTE staff positions in order to achieve a similar level of accuracy, fairness and integrity to the state's collection and oversight of gambling revenue.

Because of dramatic expansion in the gambling industry since the Performance Audit was completed over a year ago, the Division has added two more FTE positions to this recommendation in order to keep pace with growth in the gambling industry. If such a plan were adopted as an alternative to the dial-up system, it would require not only an initial lump sum cost for the 25 new staff positions and equipment, but also a need for

additional office space, supplies and travel expenses.The start-up costs of the additional FTE positions would be approximately $1.4 million, and the annual costs for the positions and expenses would be approximately $1million.

The Department is proceeding with a proposal for an automated accounting and reporting dial-up system because of the cost savings and efficiency it would allow, compared to adding 25 new FTE staff positions.

In response to the Auditor's report, the Division has begun a review process of an automated accounting and reporting dial-up system. The attached **Appendix A** is a proposed outline for the Department's on-going review and recommendations. This report is a summary of the current information available.

A proposed dial-up bill prepared by the Department is attached as **Appendix B.** In addition, a $950,000 appropriation for a dial-up study and implementation of the system is included in the Department's budget request and has been approved by the Governor's Office.

DESCRIPTION OF A "DIAL-UP" SYSTEM:

The first central accounting and reporting dial-up system created and installed in this country was in South Dakota in 1989. Since that time, Louisiana and Oregon have installed central accounting and reporting systems. South Carolina and Delaware are in the process of installing a system, and New Mexico is currently discussing legalized video gambling and a central system. Western Canadian provinces, including Alberta and Saskatchewan also have installed central systems. The trend within regulatory jurisdictions, is to make a central accounting and reporting system a part of the move to legalize video gambling. All licensed VGMs manufactured today, available in Montana, are capable of meeting dial-up standards. Only a small number of machines in Montana, 1,525, are either impossible or too expensive to upgrade.

A dial-up system would not require any change in existing statute or rules about the type of information the Department of Justice requires establishments and licensees to provide it would simply use technology to get the existing information faster and more efficiently. A dial-up system will not solve every problem that exists, but it will enable the Gambling Control Division to identify problems the next day rather than five to six months after quarterly reports are submitted.

A central accounting and reporting dial-up system consists of three components:

Central computer - Since the advent of the first system in South Dakota, there are numerous off-the-shelf central computer systems available. The

central unit consists of the actual computer and hard drives, a personal computer to test software and to log-on to the main computer, a remote polling site which controls the telecommunication, and modems to dial-out to video gambling machines once every 24 hours. Software programs enable the computer to dial-out once every 24 hours, communicate, receive and store data, check EPROMs, and to convert data into reports and issue invoices. The software must also be capable of maintaining the security and confidentiality of the information.

Telecommunications Network - A series of phone lines capable of data transmission to any location in Montana. The state currently has a number of networks, such as, the state phone network and METNET, run by the Office of Public Instruction, which cover part of the state or serve certain institutions and may be available for use. The Department of Administration, Information Services Division, is currently working on setting up a comprehensive statewide telecommunications network, called SummitNet, that may be available in the next few years. If SummitNet is available by the time a dial-up system is scheduled to go online, then almost all phone calls will be local calls with a minimal charge. In addition, private long-distance companies such as US West, MCI, TRI-Touch America and Sprint could provide the service.

Location equipment - Each gambling establishment and its video gambling machines will be connected to the network by a standard business phone line. A modem in one of the machines or located in a "site controller" (depending on the specific manufacturer central computer system and the specific type of system design that meets the needs of Montana), is used to provide a way of intelligently communicating with the central computer. Each video gambling machine must be capable of communicating its electronic meter readings, by modem, once every 24 hours.

Estimated Summary Costs (without Site Controller):

	Start-up, one-time costs	Annual costs
Central computer	**$1.3 million**	**$477,920**
Network	**-0-**	**$180,000**
Establishment		
VGM upgrade (per VGM)	**$350**	
Modem, cables, phone	**$277**	**$312**
Sub-total	**$627**	

Estimated Establishment Costs (without site controller) for 15,000 VGMs: $5.7 million

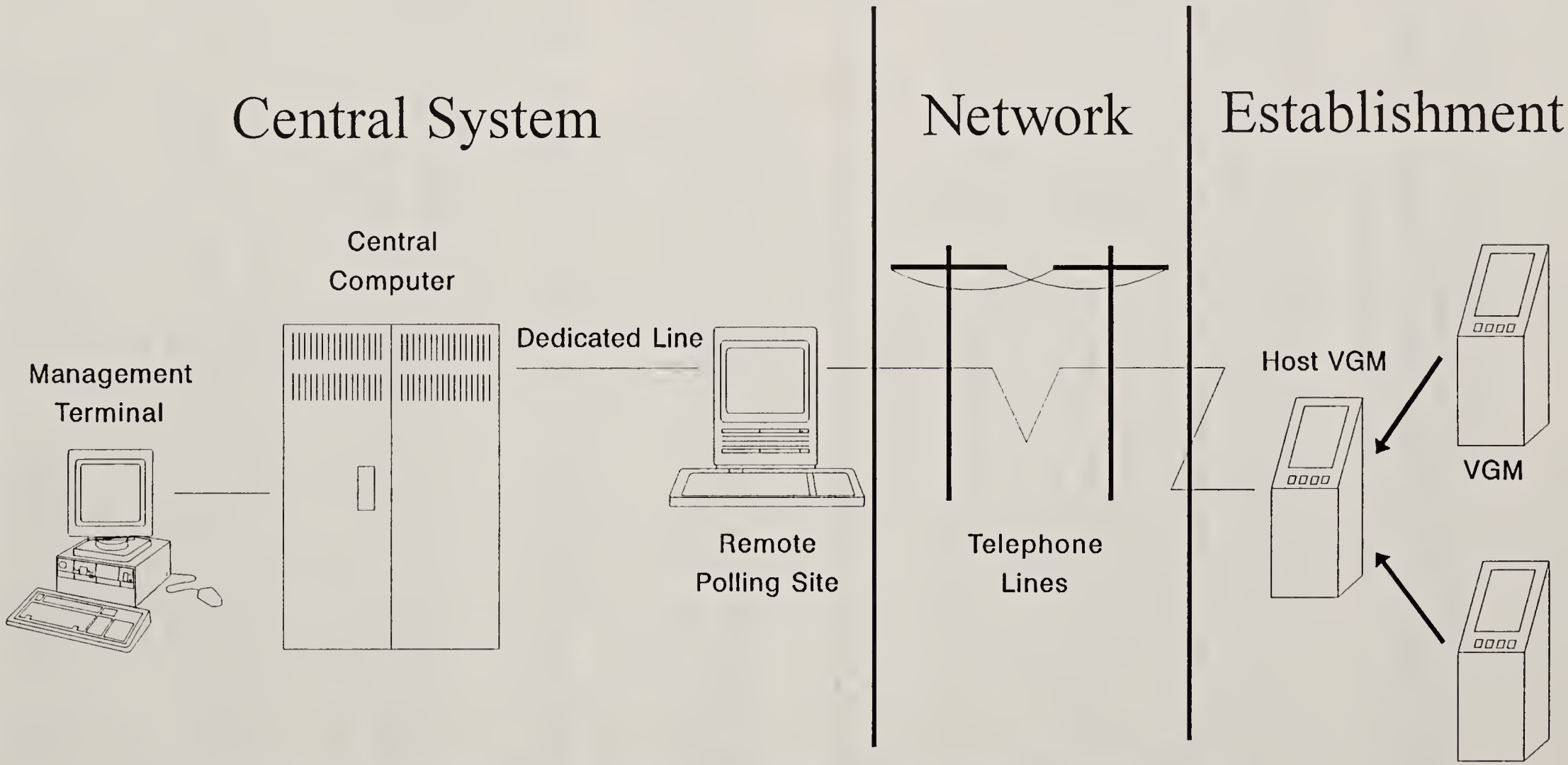
ADVANTAGES of a DIAL-UP SYSTEM:

Owner/operator:

- automatic accounting of all machine play
- cash in and cash out
- player game preferences
- reduced paperwork, fewer forms to fill out
- assures correct tax reporting and payment
- 24 hour notification of illegal entry into machines
- increased accuracy of accounting

Public/taxpayer:

- verify correct EPROM to assure fair and legal play
- resolves problems with meters not matching
- documents VGM income every 24 hours
- provides notice of machine service
- reduces problems with electronic meters zeroing out
- assures correct tax reporting and payment
- significantly reduces the need for desk and field audits
- less costly solution to adding large number of employees.



Source: Compiled by the Office of the Legislative Auditor

STAFFING REQUIREMENTS WITH A DIAL-UP SYSTEM:

One of the questions the Department is seeking to answer in this preliminary inquiry is whether the current Division staffing level is adequate to implement and operate a dial-up system. Based on information obtained in both Saskatchewan and South Dakota, it appears that the Division's proposed modified staffing levels (in current budget request) would be adequate to meet Montana's needs with two notable exceptions: a Communications Specialist and a Systems analyst. The following is an analysis of staff functions with dial-up, a discussion of the ability of modified staff levels to handle the duties, and a cost estimate for an additional FTE that may be necessary to implement the system.

Dial-Up Functions. Seven basic staff functions were identified in both Saskatchewan and South Dakota. Evaluations are made in terms of current staff levels, existing personnel, and modified staff levels with the additional FTEs (necessary with or without dial-up) requested in this biennium budget.

1. Machine Testing. This function is already performed by division staff. It is assumed that **current level** staff could continue to handle this function under a dial-up system.

2. Machine Inspection. This function is already performed by division staff, though inadequately as noted by the Legislative Auditor. It is assumed that current budget proposed **modified** staff levels could continue to perform the function under a dial-up system.

3. Machine Audit. This function is already performed by division staff. It is assumed that current budget proposed **modified** staff levels could continue to perform the function.

4. Help-desk or Hot-Line Operators. This function, as performed by Saskatchewan and South Dakota staff, involves taking calls from operators on machine problems and helping trouble shoot the problems. It also involves taking meter information over the phone prior to service in which meters are zeroed, relaying meter readings to audit personnel, and updating the meter information on the system to account for changes. Hot-Line operators also initiate standard system reports and monitor problem resolution. The trouble shooting aspect was more important in Saskatchewan because the Province owns the machines as well as the central system and is responsible for maintenance. In South Dakota, Hot-Line duties seemed to be more limited to information relay, data entry, initiating computer reports, and monitoring non-reporting terminals. South Dakota does not own the machines.

If the state adopts Hot Line functions similar to South Dakota, the current budget proposed **modified** staff levels may be appropriate. Division Compliance Specialists currently identify problems, communicate with operators to resolve the problems, followup to make certain problems are corrected and run reports.

5. Licensing. Both of the jurisdictions performed a licensing function. Current division staffing levels can handle the work load. If anything, a dial-up system would help automate the process and speed permitting approval to the establishment.

New positions required:

6. Communications. Both Saskatchewan and South Dakota retained the services of a communications specialist: someone to trouble-shoot communications problems (malfunction of modems and/or machine linkage to central system). The Department of Justice will have to seek legislative authorization in the next biennium for this task. This position will require a person with specific skills and experience in telecommunications and computer programming. The performance of this function may require resources over and above the proposed modified levels. Division technical personnel could probably handle the technical nature of the job but the division projects a workload in other areas of on-going responsibility that would make it impossible respond to problems with the immediacy required.

The cost of a Communications Specialist would be approximately $49,400 in the first year and $42,000 the second year, without equipment replacement thereafter.

		Yr 1	Yr 2
1 Grade 16	Salary	$30,000	$30,000
	Benefits	$7,000	$7,000
Operating Exp.		$5,000	$5,000
Equipment			
	PC	$3,200	
	Office	$1,200	
	Cell Phone	$100	
	Lap Top	$2,900	
Total		$49,400	$42,000

7. Systems Analyst. Saskatchewan retains the services of a systems analyst to review system software, ensure that vendor-provided software is performing to jurisdictional specifications, trouble shoot any problems immediately, and develop systems information programs to report data that meets the needs of management and operators. The performance of this function would require resources over and above current and modified levels. As was related under Task No. 6 above, Division technical personnel could handle the technical nature of the job but Division workloads in other areas of responsibility would make it impossible to respond to problems with the immediacy required without additional staff.

The cost of a Systems Analyst would be approximately $49,400 in the first year and $42,000, in the second without equipment replacement thereafter.

		Yr 1	Yr 2
1 Grade 16	Salary	$30,000	$30,000
	Benefits	$7,000	$7,000
Equipment			
PC		$3,200	
Office		$1,200	
Cell Phone		$100	
Lap Top		$2,900	
Total		$49,400	$42,000

Telecommunications Cost Estimates:

There are a number of possible configurations for Dial-Up networks that would use the State network. Two possibilities exist: local which uses long distance calls from Helena and remote, which utilizes remote polling sites and places local calls via SummitNet.

A preliminary estimate of a local network, using the state network, proved to be very expensive; nighttime calls from Helena to Missoula cost 14.4 cents for the first minute and calls from Helena to Kalispell cost 16 cents for the first minute. By comparison, South Dakota pays 8 cents a minute using a common carrier. Montana should negotiate rates to achieve a more cost-effective rate from a common carrier.

A remote network proved to be very promising with the potential implementation of SummitNet, a wide area phone/data network that utilizes remote located asynchronous servers to locally reach almost the entire state. The asynch servers support Transmission Control Protocol/Internet Protocol (TCP/IP) protocol on the Helena (central system) side and either SLIP (synchronous link interface protocol) or PPP(point to point protocol) on the machine side. SummitNet is projected to be completed in mid FY96, just in time for dial-up.

The TCP/IP central system protocol and the SLIP or PPP machine protocol could be part of the Request For Proposals for a dial-up system. It is possible that some of the potential vendors support TCP/IP as part of their turnkey package. The Division generated a demographic report that grouped all establishments by city/county and listed each establishment's phone number prefix. The Department of Administration's Information Services Division is reviewing this to determine which establishments can be reached locally via SummitNet. The Division also firmed up the cost of a flat business-line installation; it is $61.40 from US West. The monthly rate is $25.96. These costs will vary with different providers and subject to negotiation.

GAMBLING INDUSTRY OVERVIEW:

Public policy in Montana has vacillated greatly from periods of wide-open gambling to hard prohibition. The current policy, which sanctions privately-owned, limited gambling regulated by the State, is a relatively recent development in our history. The Montana Department of Justice began regulating statewide gambling in 1989. A history of gambling in Montana is attached as **Appendix C.**

The picture of the Montana's gambling industry that emerges from recent statistics is, no longer one of a small "mom and pop" industry. Today, gambling in Montana is dominated by large casinos with very profitable operations. These casinos are 20-machine establishments whose VGMs have an annual individual machine average machine gross income of $24,300, and a small but significant and profitable group of Route Operators who dominate the ownership and distribution of video gambling machines.

A number of smaller establishments with one to five machines, still exist. These machines show a significant average gross machine income of approximately $6,500 per year per machine. Even small establishments, those with only three VGMs, realize an average gross machine income of approximately $20,000 per year.

The gambling industry is a significant part of the Montana economy. Players wagered approximately $400 million on video gambling machines in FY 1994. Total gross machine income (after payouts) was approximately $180 million. Reported tax revenue in FY 1994 was approximately $30 million, split equally in thirds between the state general fund, city and county governments. By comparison, the state lottery generated approximately $36.8 million.

These statistics become important when the state considers who should pay for upgrading existing machines to dial-up standards. The Division projects that the upgrade for three VGMs may be a one-time cost to an establishment of approximately $1,300, with an annual cost of $.24/day for approximately one minute of phone time.

The following paragraphs provide a more detailed overview of the Montana gambling industry today. In order to understand the industry and its regulation by the Department of Justice the following gambling license categories are defined:

Location Operator	Must hold a valid on-premise liquor license and may own or lease and make available for public play up to 20 video gambling machines.
Route Operator	A person who purchases gambling equipment from a licensed manufacturer, route operator, or distributor and leases it to an operator, for use by the public.

Distributor	A person who purchases or obtains gambling equipment from a manufacturer, distributor, route operator, or operator and sells it to a licensed distributor, route operator or operator.
Manufacturer	A person who assembles from raw materials or sub-parts a completed piece of equipment of any kind to be used as a gambling device, and who sells the equipment directly to a licensed distributor, route operator, or operator.

As of **January 4, 1995**, the following number and type of gambling establishments were in operation:

On-Premise Liquor	**1,487**
Convenience Stores (Grandfathered locations)	**54**
Fraternals, non-profits	**60**
TOTAL GAMBLING ESTABLISHMENTS	**1,601**

By far, most gambling locations **(1,487)** are located in for-profit gambling establishments that also have on-premise liquor licenses. These establishments are allowed to make available for public play up to 20 video gambling machines (either poker or keno machines in any combination up to 20).

As of January 4, 1995, **253** of the **1,601** establishments contained 20 video gambling machines, the maximum allowable for public play. **There are the following number of different sized establishments by number of VGMs:**

Number of VGMs	Number of estab.
1-4 machines	412
5-9 machines	561
sub-total(less than 10)	973
10-14 machines	245
15-19 machines	130
20 machines	253
sub-total(10 to 20)	628
TOTAL ESTABLISHMENTS	**1,601**

As of January 4, 1995, 14,958 machines were licensed for play in Montana -- compared to just 8,462 machines licensed in 1988, when the state first began licensing both video poker and keno machines.

Route operators own nearly two-thirds of these 14,958 machines, while the remaining third

is owned by the establishment in which they are located. In addition, the six largest route operators in the state owned 4,588 machines. **This amounts to nearly one-half of all machines owned by route operators and one-third of all machines licensed for play in Montana.**

VGMs OWNED BY RT. OP.	**9,977**
VGMs OWNED BY ESTAB.	**4,981**
TOTAL NUMBER OF VGMs	**14,958**

VGM Producing Revenue:

The **average gross income per video gambling machine,** for establishments (814 establishments out of 1,601) that operated all their machines a full four quarters of FY 1994 was:

Machines	# of Estb.	Total VGMs	AVG. Income/machine/yr
1 - 4	**314**	**857**	**$6,555.02**
5 - 9	**287**	**1,839**	**$7,813.66**
10 - 15	**92**	**1,057**	**$9,524.23**
15 - 20	**121**	**2,309**	**$24,300.97**

As a group, Route Operators own a significant portion of the machines in Montana. Average net income per machine for machines that were in operation a full four quarters in FY 1994.

Machines	Rt.OP	Total VGMs	AVG.Income/machine/yr.
1 - 50 machines	**"**	**1194**	**$18,066.35**
51 - 100 machines	**"**	**890**	**$12,439.33**
151- 200 machines	**"**	**1289**	**$10,598.90**
201- 250 machines	**"**	**231**	**$16,862.68**
251- 300 machines	**"**	**261**	**$11,846.45**
301+ machines	**"**	**3150**	**$14,893.86**

In order to understand the magnitude of the potential profit-generating power of VGMs it is important to look not only at average machine income per year but also the upper end of the spectrum. There were eight VGMs that produced record high gross income, over $100,000 each in FY 94:

		FY1994 Net
Missoula	**1 machine**	**$164,632**
Great Falls	**1 machine**	**$128,578**
Billings	**1 machine**	**$112,599**
Billings	**1 machine**	**$110,452**

Helena	**1 machine**	**$110,279**
Helena	**1 machine**	**$110,112**
Billings	**1 machine**	**$106,079**
Billings	**1 machine**	**$105,685**

In FY 1994, **16 establishments** (all with 20 machines) had a gross income from video gambling machines of more than **$1,000,000 each**. Of those 16, the highest was **$1.5 million gross income** located in Helena and the lowest of the 16 was **$1,000,000** located in Butte.

In FY 1994, **104 establishments** (all with 20 machines) had a gross income from video gambling machines of over **$500,000 each.**

VGMs Not Upgradeable to Dial-up Standards:

Currently, 1,525 out of 14,958 video gambling machines in Montana are not capable of being upgraded or would be too costly to be upgraded to dial-up standards (**APPENDIX D**). These machines are being eliminated or phased out by establishments and route operators on a regular basis, and in two years' time (when dial-up may be a reality) that number will likely have fallen significantly. Every license renewal period, the Division finds that owners have removed a number of these machines from the market and we expect this trend to continue. In FY 1994, by comparison, approximately 1,800 VGMs were incapable of being upgraded to dial-up standards.

The number of VGMs in smaller gambling establishments (those with **five or fewer** machines) that **are not upgradeable** to **dial-up standards**, is as follows:

	Number of VGMs
Route Operator owned machines	**77**
Establishment owned machines	**21**
TOTAL VGMs (In smaller establishments) NOT FEASIBLE TO UPGRADE	**98**

The total number of VGMs that are not upgradeable to dial-up standards are:

	Number of VGMs
Route Operator owned machines	**1,050**
Establishment owned machines	**475**
TOTAL NUMBER OF VGMs NOT FEASIBLE TO UPGRADE	**1,525**

Life expectancy varies with each individual machine type, and machines are often replaced for marketing reasons rather than for any physical malfunction. Newer machines offer more varied and interesting graphics, game play, and increased ease of operation and

maintenance. The industry depreciates machines over a three to five-year period.

GAMBLING CONTROL DIVISION TAX AND AUDIT FUNCTIONS:

The Gambling Control Division is faced with the tremendous task of trying to monitor, regulate and control approximately 15,000 machines in 1,600 locations across Montana. In addition, the paperwork generated by the current manual reporting system creates an ever increasing workload for Division staff. The functions performed by the Audit and Tax Program of the Gambling Control Division under the current manual system that would be improved and made more efficient by converting to an automated accounting and reporting dial-up system are as follows:

1. **Field Audits** - Revenue Agents conduct not only machine field audits but also license investigation reviews. If no other tasks were assigned to them but field audits, they could complete approximately 30 per year. Because of other responsibilities and tasks, it is difficult to predict how many actual field audits will be completed in a year. Currently a backlog of 84 video gambling machine field audits existed at the end of FY 1994. Without additional staff it would take approximately two years to complete these audits. Current workloads prevent completion.

2. **Staff Workloads** - Because of the current number of FTEs allocated to the Tax and Audit program, the following responsibilities are in significant backlog: completion of 300 to 400 financial reviews of license renewal updates per year; financial review on 350 to 400 new and amended license applications per year; and follow-up financial review on 133 conditional licenses issued in the past four-and-a-half years.

3. **Service Reports** - Approximately 20,000 service reports are filed each year for such activities as meters that have been zeroed out, software upgrade or change, meters that don't match and scrambled electronic meters. Often, service reports are illegible or unreadable because the licensee, route operator, or service person has haphazardly completed the form. We have no way of knowing how many problems are not reported.

4. **Non-filers** - Approximately 160 to 240 locations fail to file quarterly reports each year. Correspondence is required to determine the problem and penalty assessment and correspondence follow-up is required on each per year. It commonly takes up to four letters--plus a penalty--to get offenders to respond and pay.

5. **Data input** - Inputting quarterly reporting information on each video gambling machine takes the two Compliance Specialists about two weeks per quarter or a total of eight weeks per year. This time is spent simply inputting the data from the written quarterly reports. This must be done before we can analyze the information or attempt to decipher or discern any problems with the numbers submitted. The Division receives and processes approximately 60,000 quarterly reports each year.

6. **Problem letters** - The Compliance Specialists identify filing and recordkeeping problems with quarterly reports and send out approximately 2,900 problem letters per year, representing 40% to 45% of locations licensed to operate video gambling machines. At present there are approximately 50 unresolved problems a year mainly due to licensees selling their establishments and leaving the industry. Problems arise when the internal machine accounting systems and audit tapes become garbled in the beginning or middle of the quarter and the operator fails to identify and correct the problem until notified by Compliance Specialists at the end of the quarter. Many of the machines allowed to run without corrections during this time simply cannot be audited for this period of time.

7. **Office Audits** - The current system's problems require 2,400 to 3,200 quarterly desk audits per year representing 16,000 to 23,000 of the 60,000 machine quarterly reports filed annually. When asked for tapes and service reports, licensees frequently send a whole tape roll and ask the Division to find the specific accounting ticket that was requested. In November 1994, for example, one licensee sent in a 12 cubic foot box which contained tape rolls from all their machines for the past year. Such activity requires more staff time to either return and delay the audit or attempt to search the material and put other tasks on hold until the requested information is located. All of this staff activity requires follow-up with the licensee. Consequently, substantial time lapses before the audits can begin and be completed.

TECHNICAL DATA:

Of the 14,598 machines currently licensed and operating in Montana, most though not all machines are capable of being upgraded to dial-up standards. 1,525 currently licensed video gambling machines are either too costly to upgrade or technically impossible to upgrade (See **Appendix D).**

The cost of the upgrade conversion is subject to some variation, depending on the manufacturer. In theory, video gambling machine manufacturers could charge whatever they wanted because they consider the hardware and software as proprietary. However, during staff site visits to the Province of Saskatchewan and South Dakota, we asked regulatory personnel the price paid for the same model of machines that are sold in Montana without the so-called proprietary dial-up hardware and software. **In both jurisdictions, the price was either the same or lower than that paid for the same machine in Montana.** So whatever price the manufacturers charge in Montana, the actual cost should not be significant.

The Gambling Control Division's testing lab estimates that the cost of modifications needed to upgrade a machine average approximately $300 per machine. Representatives of one manufacturer estimate a cost of $600 per machine and another representative estimates a cost of $600 to $700 per machine. We do know that almost all of the manufacturers licensed in Montana also sell machines in other jurisdictions where dial-up

capable video gambling machines are required.

Manufacturers licensed to sell video gambling machines and their percentage of market share are attached in **Appendix E.**

OTHER STATES and PROVINCES SUMMARY:

Table 1

Comparison of Video Gambling Among Various States

	Fiscal Year 1992-93 Montana	Louisiana	S. Dakota	Oregon	Nevada
Type of Tax Reporting System	Manual	Dial-up	Dial-up	On-Line	Manual
Number of Video Gambling Machines	14,000	10,000	6,928	5,633	15,000*
Max. Number of Machines/Establishment	20	3	10	5	15
State Population	799,000	4 million	700,000	3 million	1 million
Gross Revenue Tax Rate	15%	22.5%	35%	65%	$250/yr+ Qrtly Fees
Total Dollars Wagered (in millions)	$397.5	$430	$392	$347	N/A
Per video gambling machine	$28,393	$43,000	$56,582	$61,601	N/A
Per Capita	$497	$108	$560	$116	N/A
Total Gross Income (in millions)	$178.9	$189	$141	$172.4	N/A
Per video gambling machine	$12,779	$18,900	$20,352	$30,605	N/A
Per capita	$224	$47	$201	$57	N/A
Total Tax Revenue (in millions)	$26.8	$42.5	$49.3	$113.5	N/A
Per video gambling machine	$1,914	$4,250	$7,116	$20,149	N/A
Per capita	$34	$11	$70	$38	N/A

* Restricted establishments only

Source: Compiled by the Office of the Legislative Auditor

Site Visit Review:

In September 1994, the Gambling Control Division sent out a Request for Preliminary

Planning Information for a Video Gambling Machine Central Accounting System (Dial-Up), attached as **Appendix F**. The Division received detailed responses from three major manufacturers of video lottery/machine equipment and several responses from other interested companies that merely indicated interest. The three detailed responses were received from International Game Technology - NA(IGT), Video Lottery Technologies, Inc.(VLT), and GTECH Corporation. The responses contain proprietary information and will only be available for public review if released by the manufacturer.

After reviewing the responses, the Division undertook site visits to two neighboring jurisdictions that currently operate automated accounting and reporting dial-up systems, South Dakota and the Province of Saskatchewan. During the site visits, Division staff submitted numerous questions concerning the systems and reviewed the actual operation of the accounting and reporting systems including:

1. Central system hardware and software, maintenance and upgrades, and associated costs.

2. Telecommunications, networks, hardware and software and associated costs.

3. Staffing requirements, position descriptions, and costs.

4. Location equipment, requirements and costs.

5. Identified problems or improvements recommended.

Saskatchewan System Summary:

Saskatchewan has a dial-up system supplied by GTECH. It uses 2400 baud modems to dial up approximately 540 sites and download from approximately 3,000 machines nightly. It's based on a DEC mini-computer running the Video Lottery System operating system. The data is in an SQL based Sybase database. There are two identical DEC mini's; System A is the main one and System B is for backup and testing. There's a separate 486-based PC running Sybase that is used to off-load the data from the DEC machines and to run complex reports.

The province owns all VGMs and places them in locations that have an existing provincial liquor permit. Each location operator may have up to ten machines in an establishment. The province keeps 85% of the revenue generated by the VGMs and allows the location operator to keep 15%.

South Dakota System Summary:

South Dakota uses a RISC-based Stratus system supplied by VLT. Which could also be

classified as a mini-computer. It has six Remote Polling Computers which are 386-based PC compatibles, each with six serial ports and attached modems to do the nightly polling. They are located at the central site next to the Stratus. It has a separate 486 based computer running Unix and an Informix data base to run reports. This is used to hold a copy of the data to be used for complex queries. It is much easier to do complex queries on an SQL-based (Informix) database than on the Stratus. This also off-loads the work to keep the Stratus free to do polling.

In South Dakota, route operators own all the machines and lease them to locations. The state receives a tax of 35% of net income from VGMs.

Down time caused by Central System problems:

Saskatchewan reported no incidents of problems with VGMs being down due to central system errors. If there is a problem in the central system, location VGMs play would be unaffected because the central system does not control machine play but only takes meter readings.

South Dakota had one incident in five years that was caused by changes in the central system. The incident occurred when a new VGM protocol was sent out to one manufacturers machines. The establishment VGMs didn't recognize the new protocol and automatically shut themselves off and were down for approximately eight hours. The incident was due to a South Dakota Lottery procedural problem. Procedures to insure that such an incident will not occur in the future were initiated immediately by the South Dakota Lottery and there have been no repeat incidents. Similar procedures should be a part of Montana's operating system.

Machine Technical Support:

In Saskatchewan, the Province owns all the machines and only allows their technicians to work on a machine.

In South Dakota, route operators are licensed/trained and responsible for all maintenance and upgrades of machines. If a problem occurs and an establishment owner calls the South Dakota Lottery support line, they are referred to their route operator.

Montana should review, as a part of the detailed dial-up study, the issue of technical support and training.

Dial-Up Cost Estimate Breakdown

January, 1995
(page 1 of 1)

One Time Central System Costs

Description	*Qty*	*Unit Cost*	*One Time Cost*
Cent. Sys. (hdwr/sftwr/install/trng)			$1,250,000
Site Preparation (security, a/c, raised floor, etc.)			$50,000
Flat Bus Phone Line Install	60 ea.	$61	$3,660
Help Desk Misc.			$5,000
Equipment (Communications FTE)			$7,400
Equipment (System Administrator FTE)			$7,400
One Time Cost Total			$1,323,460

Annual Central System Costs

Description	*Qty*	*Unit Cost*	*Annual Cost*
1 FTE (Communications)			$42,000
1 FTE (System Administrator)			$42,000
Flat Business Phone Lines	12 mos.	$1,560	$18,720
Operating Costs (space, power, supplies, etc.)			$25,200
Hardware & Software Upgrades			$200,000
Hardware & Software Maintenance			$150,000
Annual Cost Total			$477,920

Network Costs

Description	*Qty*	*Unit Cost*	*One Time Cost*
Long Distance *	12 mos.	$15,000	$180,000

** Assumes commercial provider, subject to negotiations*
** This estimate is the "worst case" scenario*
* The use of the State SummitNet Network would significantly reduce these costs

Dial-Up Cost Estimate Breakdown

January, 1995
(page 2 of 2)

One Time Cost Per Establishment

Description	*w/o Site Controller*	*w/ Site Controller*
Establishment communications equipment	$277	$1,557
Per machine upgrade cost (multiply cost by number of machines in establishment)	$350	$700

One Time Cost For All Establishments Combined

Description	*w/o Site Controller*	*w/ Site Controller*
Communications equipment ($277 w/o site controller and $1,557 w/site controller) and machine upgrades ($350 for each machine site controller and $700 for each machine w/ site controller)	$5,720,900	$13,146,900

Annual Cost Per Establishment

Description	*w/o Site Controller*	*w/ Site Controller*
Flat Business Phone Line	$312	$312

Annual Cost For All Establishments Combined

Description	*w/o Site Controller*	*w/ Site Controller*
Flat Business Phone Line	$530,400	$530,400

All Cost estimates do not include labor for installation.
All Cost estimates utilize RFI estimates of 15000 machines and 1700 establishments.

Impact of Dialup Expenses on Current Level Special Revenue

Without Long Distance Line Charges

Current & Modified Exp.	FY 95	FY 96	FY 97	FY 98
FTEs	42	48	48	48
Personal Services	$1,497,816	$1,573,187	$1,580,558	$1,580,558
Operating Expenses	$365,439	$648,878	$603,665	$603,665
Equipment	$66,862	$136,804	$88,500	$88,500
Debt Service	$2,844	$2,898	$0	$0
Total Curr. & Mod. Exp.	$1,932,961	$2,361,767	$2,272,723	$2,272,723
Dialup Expenses				
Start Up				
Operating	$0	$50,000	$0	$0
Equipment & Software	$0	$0	$1,273,460	$0
On-Going				
Pesonal Services	$0	$0	$0	$84,000
Operating	$0	$0	$0	$193,920
Equip & Software	$0	$0	$0	$200,000
Total Dialup Expenses	$0	$50,000	$1,273,460	$477,920
Total Exp.	$1,932,961	$2,411,767	$3,546,183	$2,750,643
Revenues				
Gen Fund-Liquor	$318,973	$495,828	$476,793	$476,793
State Special	$2,092,198	$2,265,398	$2,457,698	$2,728,044
Fund Balance Prior Year	$270,730	$748,940	$1,098,399	$486,707
Total Revenue	$2,681,901	$3,510,166	$4,032,890	$3,691,544
Fund Balance	$748,940	$1,098,399	$486,707	$940,901

Impact of a Dialup System on Current Level Special Revenue

With Long Distance Line Charges

Current & Modified Exp.	FY 95	FY 96	FY 97	FY 98
FTEs	42	48	48	48
Personal Services	$1,497,816	$1,573,187	$1,580,558	$1,580,558
Operating Expenses	$365,439	$648,878	$603,665	$603,665
Equipment	$66,862	$136,804	$88,500	$88,500
Debt Service	$2,844	$2,898	$0	$0
Total Curr. & Mod. Exp.	$1,932,961	$2,361,767	$2,272,723	$2,272,723
Dialup Expenses				
Start-up				
Operating	$0	$50,000	$0	$0
Equipment	$0	$0	$1,273,460	$0
On-going				
Pesonal Services	$0	$0	$0	$84,000
Operating	$0	$0	$0	$373,920
Equip & Software	$0	$0	$0	$200,000
Total Dialup Expenses	$0	$50,000	$1,273,460	$657,920
Total Exp.	$1,932,961	$2,411,767	$3,546,183	$2,930,643
Revenues				
Gen Fund-Liquor	$318,973	$495,828	$476,793	$476,793
State Special	$2,092,198	$2,265,398	$2,457,698	$2,728,044
Fund Balance Prior Year	$270,730	$748,940	$1,098,399	$486,707
Total Revenue	$2,681,901	$3,510,166	$4,032,890	$3,691,544
Fund Balance	$748,940	$1,098,399	$486,707	$760,901

Impact of a Dialup System on Current Level Special Revenue

Without Long Distance Line Charges With OBPP Limit

Current & Modified Exp.	FY 95	FY 96	FY 97	FY 98
FTEs	42	48	48	48
Personal Services	$1,497,816	$1,573,187	$1,580,558	$1,580,558
Operating Expenses	$365,439	$648,878	$603,665	$603,665
Equipment	$66,862	$136,804	$88,500	$88,500
Debt Service	$2,844	$2,898	$0	$0
Total Curr. & Mod. Exp.	$1,932,961	$2,361,767	$2,272,723	$2,272,723
Dialup Expenses				
Start-up				
Operating	$0	$50,000	$0	$0
Equipment & Software	$0	$0	$900,000	$373,460
On-going				
Pesonal Services	$0	$0	$0	$84,000
Operating	$0	$0	$0	$193,920
Equip & Software	$0	$0	$0	$200,000
Total Dialup Expenses	$0	$50,000	$900,000	$851,380
Total Exp.	$1,932,961	$2,411,767	$3,172,723	$3,124,103
Revenues				
Gen Fund-Liquor	$318,973	$495,828	$476,793	$476,793
State Special	$2,092,198	$2,265,398	$2,457,698	$2,728,044
Fund Balance Prior Year	$270,730	$748,940	$1,098,399	$860,167
Total Revenue	$2,681,901	$3,510,166	$4,032,890	$4,065,004
Fund Balance	$748,940	$1,098,399	$860,167	$940,901

Impact of a Dialup System on Current Level Special Revenue

With Long Distance Line Charges With OBPP Limits

Current & Modified Exp.		FY 95		FY 96		FY 97		FY 98
FTEs		42		48		48		48
Personal Services		$1,497,816		$1,573,187		$1,580,558		$1,580,558
Operating Expenses		$365,439		$648,878		$603,665		$603,665
Equipment		$66,862		$136,804		$88,500		$88,500
Debt Service		$2,844		$2,898		$0		$0
Total Curr. & Mod. Exp.		$1,932,961		$2,361,767		$2,272,723		$2,272,723
Dialup Expenses								
Start-up								
Operating		$0		$50,000		$0		$0
Equipment & Software		$0		$0		$900,000		$373,460
On-going								
Personal Services		$0		$0		$0		$84,000
Operating		$0		$0		$0		$373,920
Equip & Software		$0		$0		$0		$200,000
Total Dialup Expenses		$0		$50,000		$900,000		$1,031,380
Total Exp.		$1,932,961		$2,411,767		$3,172,723		$3,304,103
Revenues								
Gen Fund-Liquor		$318,973		$495,828		$476,793		$476,793
State Special		$2,092,198		$2,265,398		$2,457,698		$2,728,044
Fund Balance Prior Year	$270,730		$748,940		$1,098,399		$860,167	
Total Revenue		$2,681,901		$3,510,166		$4,032,890		$4,065,004
Fund Balance		$748,940		$1,098,399		$860,167		$760,901

TO: Department Dial-up study group participants
FROM: Joseph P. Mazurek, Attorney General
DATE: 12/23/94
SUBJECT: Dial-up work group

I would like to establish an advisory dial-up working group responsible for examining and recommending long-range strategies and priorities to the Attorney General related to a dial-up central computer system in the Gambling Control Division of the Department of Justice.

The establishment of this advisory work group is the result of recommendations that I received from the GCD, gambling industry representatives and interested members of the public. The fundamental question is, "What is the best possible kind of dial-up system for the state of Montna, what will it look like in detail and how much will it cost?"

I believe that the creation of an administrative level advisory working group for dial-up issues would be a very important part of setting Department priorities and keeping our strategic planning process up-to-date.

In order to give this recommendation an institutional frame work within the Department of Justice, I would like to suggest the attached document. What I have outlined is the structure, responsibilities and process for an advisory working group. Before I finalize the document, I would very much like to have your comments, suggestions and proposed amendments.

DEPARTMENT OF JUSTICE
Dial-up Working Group

(1) Creation of an Advisory Dial-up Working Group. The Attorney General will solicit participation from representatives of the interested public, gambling industry, the Montana Lottery, Information Services Division of D of A, Computer Services Division of D of J and the Gambling Control Division.

(2) Purpose and Goals. The purpose of the working group is to assist the Gambling Control Division in establishing a dial-up computer system strategic plan for the Department of Justice. This plan should encompass:

(a) broad public policy needs related to fair and equitable revenue reporting and collection and integrity of machine play;

(b) long-term direction for increasing the accuracy and fairness of revenue collections;

(c) long-term direction for increasing the frequency of video gambling machine inspection; and

(d) the effective review and implementation of a detailed strategic plan for dial-up computer information system implementation in the Department of Justice.

(e) establishment of priorities and provide advice on long-term strategic planning for the use of a dial-up computer system in the Gambling Control Division in order to:

(i) provide better overall coordination among the various divisions;

(ii) serve the public better by a more efficient and fair method of revenue collection and more frequent machine inspection; and

(iii) provide assurance to the public that gambling in Montana is conducted according to the Constitution and statute.

It is the goal of the dial-up strategic plan to assure coordination of Department resources, the establishment of fair and equitable revenue collection and the establishment of automated oversight of video gambling machines enhancing the department's ability to assure the gambling public that their play is based upon statutory limits prescribed by the Legislature.

(3) Composition of the work group. The advisory working group is composed of representatives of the Attorney General's office, GCD, CS&PD, ISD of Department of Administration, the Montana Lottery,

the gambling industry and interested members of the public. The Administrator of the GCD shall serve as chair. The group shall meet as needed to develop, review and comment on the dial-up strategic plan.

(4) Dial-up Plan. The group shall develop and recommend to the Attorney General a Department of Justice plan that contains a statement of the problem (Identified by the Legislative Auditor), a review of dial-up systems in other states and provinces, a review of existing literature on dial-up, and immediate and long-term goals, directions and priorities and cost estimates. In developing and maintaining this plan, the working group shall:

(a) develop an outline of existing industry technology and profiles of video gambling machines, hardware and software, and ownership statistics;

(b) develop and maintain a description of the functions or services for which the Department of Justice is responsible that would, through application or improvement of computer technology, provide better service and accountability to the public, the gambling industry, and the Department;

(c) develop and maintain a ranking of needs, taking into consideration the relative effectiveness and probable cost of dial-up alternative systems; and

(d) develop and maintain a general description of existing revenue collection programs and machine inspection programs and plans for assuring confidentiality and security of data and information technology resources.

(5) Technical Support. The Administrator of the Gambling Control Division shall provide technical staff support to the working group.

Computer Services and Planning Division staff shall assist the Gambling Control Division by developing or having developed analyses of existing and alternative information systems; providing technical solutions and advice related to the projects identified by the group; assisting in assessing benefits and costs of optional solutions; apprising the group of developments and directions in the industry and in state and local government; and providing other assistance as requested.

(6) Recommendation of the Plan. The Dial-up Computer Strategic Plan and amendments thereto, will be discussed and reviewed by the working group at meetings called by the Gambling Division Administrator. The group shall make written comments and recommendations for the plan to the Attorney General.

(7) Implementation. The Dial-up computer plan shall be used as a framework for a detailed study the Department will conduct in 1995

(pending Legislative approval), and to develop an RFP for submission to interested manufacturers for implementation of a dial-up computer system for Montana.

Draft-up

Draft Copy

Printed 2:59 pm on December 23, 1994

APPENDIX B

LC0177

**** Bill No. ***

Introduced By **********

By Request of the Department of Justice

A Bill for an Act entitled: "An Act authorizing the department of justice to operate and maintain an automated accounting and reporting system for video gambling machines; abolishing a requirement that machine specifications must be substantially the same as the specifications required on September 30, 1989; amending section 23-5-621, MCA; and providing an immediate effective date."

STATEMENT OF INTENT

A statement of intent is required for this bill in order to provide guidelines for the adoption of rules by the department of justice to implement the automated accounting and reporting system provided for in [section 1]. The department's rules for an automated system should provide for simplified exchange of video gambling machine revenue information the department is entitled by law to receive. The rules should provide for inspection of machine components and require, except when there is imminent peril to the integrity of the system or when necessary to prevent or detect criminal activity, prior notification to a licensee before a machine is disabled for malfunctions or violations detected by use of the automated accounting and reporting system.

Draft Copy

Printed 2:59 pm on December 23, 1994

Be it enacted by the Legislature of the State of Montana:

NEW SECTION. Section 1. Automated accounting and reporting system. For the purpose of performing its duties under this chapter, simplifying the reporting of video gambling machine revenue data, and preserving the integrity of video gambling machines within its jurisdiction, the department may operate and maintain an automated accounting and reporting system for video gambling machines.

Section 2. Section 23-5-621, MCA, is amended to read:

"23-5-621. Video gambling machine specifications -- rules. (1) The department shall adopt rules implementing [section 1], describing the video gambling machines authorized by this part, and stating the specifications for video gambling machines authorized by this part. ~~The specifications in the rules must substantially follow the specifications contained in 23-5-606 and 23-5-609 as those sections read on September 30, 1989.~~ The department shall adopt rules allowing video gambling machines to be imported into this state and used for the purposes of trade shows, exhibitions, and similar activities.

(2) The department's rules for an automated accounting and reporting system shall:

(a) provide for confidentiality of information received through the system within the limits prescribed by 23-5-115(6) and 23-5-116;

(b) ensure the security and integrity of the automated

accounting and reporting system and of the video gambling machines connected to the system;

(c) limit and prescribe the circumstances for electronic transfer of funds for payment of taxes, fees, or penalties to the department;

(d) limit and prescribe the circumstances under which machines may be disabled for malfunctions or violations detected by use of the automated system; and

(e) allow a reasonable period of time, not to exceed 3 years, for previously approved machines that are not capable of being made compatible with the system to operate after the system becomes operational."

{Internal References to 23-5-621: None.}

NEW SECTION. **Section 3. Coordination instruction.** [This act] is void if [House Bill 2] is not passed and approved with a line item appropriation to implement [section 1] and no other bill is passed and approved with a specific appropriation to implement [section 1].

NEW SECTION. **Section 4. {standard} Codification instruction.** [Section 1] is intended to be codified as an integral part of Title 23, chapter 5, part 6, and the provisions of Title 23, ch. 5, apply to [section 1].

NEW SECTION. **Section 5. {standard} Effective date.** [This act] is effective on passage and approval.

Brief History of Gambling in Montana

1889	Montana's new Constitution makes all forms of gambling illegal. However, illegal gambling halls exist throughout the state. Nationally, scandals in lottery sales resulted in an anti-gambling crusade.
1910	Gambling is deemed illegal in every western state.
1933	Prohibition is repealed. Bars reopen and gambling resurfaces. Pull-tabs become popular.
1937	State legislature passes the Hickey Act which legalizes various table games in various locations if licensed by the counties.
1945	State legislature legalizes slot machines for non-profit organizations. Illegal slots are located throughout the state.
1949	State legislature allocates $20,000 to enforce gambling laws; then Attorney General Arnold Olson complies.
1950	State Supreme Court rules that slot machines and punch boards are illegal under the state constitution. An initiative to legalize gambling is defeated by voters 4-1.
1972	A Constitutional Convention referendum to give the legislature and the people authority to approve or disapprove gambling is passed by the voters.
1973	State Legislature passes the Card Game, Bingo, Raffles and Sports Pool Act.
1976	State Supreme Court legalizes video keno as a form of live bingo.
1983	Initiative-92, which would establish a Gaming Commission and a limited list of games allowed by counties, is defeated by the voters.
1985	State Legislature passes the Video Poker Machine Act. Allowed under this law: five poker machines per liquor license, unlimited keno machines; license fees per machine, no tax. In 1986, 2,887 video poker licenses were issued.
1986	State lottery is approved by the voters.
1988	Tax established on gross income from video gambling machines. One third goes to the state general fund; two-thirds goes to local government.
1989	State legislature passes SB-431 which centralizes gambling regulation at the state level and consolidates all gambling statutes. Department of Justice is assigned regulatory/enforcement/taxation duties.
1991	State legislature authorizes a total of 20 video gambling machines per liquor license. Senate Judiciary Committee rejects a blackjack bill.
1993	Senate Judiciary Committee rejects increase in payout on poker machines from $100 to $800. No new forms of gambling proposed or approved by the state legislature. Nationally, gambling is exploding as a result of state and federal law changes.

(GCD/1994; compiled from other sources)

STATE OF MONTANA

DEPARTMENT OF JUSTICE

GAMBLING CONTROL DIVISION

Joseph P. Mazurek
Attorney General

2687 Airport Road
PO Box 201424
Helena, MT 59620-1424

MEMORANDUM

TO: Wilbur Rehmann, Administrative Assistant
Gambling Control Division

FROM: Ben Kamerzel, Supervisor
Technical Services

DATE: January 4, 1995

SUBJECT: Machine Upgrade Costs For Dial-Up

14,958 video gambling machines are active in the State of Montana as of January 4, 1995. Each machine can be upgraded but, is it feasible to upgrade?

Dial-Up modifications are defined as substantial modifications and must meet all of the specific law or rule requirements in effect at the time of submission. One of the rule requirements states each machine must pass a static test. Early machine models were not subject to static testing and would most likely fail without major modifications.

The cost of upgrading an older machine with a major modification and dial-up capability, would exceed it's value. The models identified below were approved in 1985 or 1986 and are valued at an average of $300 per machine. The models identified below are determined not feasible to upgrade.

Manufacturer	Model	# Licensed as of 01/05/95
Big City Amusement	GB-1	75
Electro Sport (ESI)	all models	921
Int. Game Tech. (IGT)	7570C/CTP	371
Little Reno Corp.	CT-01	2
Merit Industries	FG9141	27
Mills Jennings	GMDPMT	2
Richard Larsen Vend.	SU-01	6
Rocky Mtn. Video	RMP-1	20
Status	90	18
	Total	1,442

Feasibility is also determined by the cost of modifying a particular machine model. The modificaiton cost is calculated by dividing the hardware/software development costs by the number of

MACHINE UPGRADE COSTS FOR DIAL-UP
January 5, 1995

machines to be modified and adding the actual cost of the hardware, installation labor and profit. Because the hardware/software development costs are similar from mfg. to mfg., the potential quantity of the model determines the cost; the greater the quantity, the more feasible to modify. Machine models that are not feasible to upgrade due to the small quantities of a specific model are listed below.

Manufacturer	Model	# Licensed as of 01/05/95
American Coin	401, 402	4
Aristocrat	MA7020	50
Ram Star	RS1501, RS1601	22
SMS	DR. POKER	7
	Total	83

Machine models that are feasible to upgrade due to dial-up capability and quantities of a specific model are listed below.

Manufacturer	Model	# Licensed as of 01/05/95
Bally	MK1B, MP1C, VPOKB3-LT	353
Big City Amusement	E43, 42LL, BCA 44	96
Big Ten Electronics(GII)	K13PR-1.0, P13PR-1.8	1,081
Dynamo	DLBT19CP, DLBP19UP	803
Int. Game Tech. (IGT)	D1060C/CV, D1070C/CV, D3670C, EA84CV	4,313
Merit	F30124, F30125, F32037, F32040, F32041 ,FG9148	2,375
Mills Jennings	MTKNOS, GMDPMTS, PKNOREF	969
SMK Corporation	201, 201-34, 201-40, 201-41	43
US Games	POG-19CSTS	69
Video Lottery (VLC)	8723, 8731, 8724M	3,303
Williams (WMS)	72601	28
	Total	13,433

13,433 machines or 90% of the current market is feasible to upgrade. The estimated average cost of upgrading a machine is $300.

Each machine within an establishment would need to be modified to communicate intelligently with a dial-up system. A typical modification would include both hardware and software to enable the communication with a dial-up system.

PRODUCED BY MONTANA DEPARTMENT OF JUSTICE
MANUFACTURER MARKET SHARE
FY 95 - ACTIVE MACHINES
As of 01/09/1995

MANUFACTURER	POKER	KENO	BINGO	TOTAL	%
MERICAN COIN	1	3	0	4	.027 %
RISTOCRAT	50	0	0	50	.335 %
ALLY MANUFACTURING	169	184	0	353	2.365 %
EG CITY AMUSEMENT	111	60	0	171	1.145 %
IG TEN ELECTRONICS	335	727	0	1062	7.114 %
YNAMO CORPORATION	347	459	0	806	5.399 %
LECTROSPORT	913	0	0	913	6.116 %
AMING INTERNATIONAL INC.	1	14	0	15	.100 %
NTERNATIONAL GAME TECHNOLOGY	2114	2564	0	4678	31.337 %
ITTLE RENO CORP.	2	0	0	2	.013 %
ERIT INDUSTRIES	1521	875	0	2396	16.050 %
ILLS JENNINGS	64	905	0	969	6.491 %
RM STAR	2	20	0	22	.147 %
ARSEN VENDING	6	0	0	6	.040 %
OCKY MOUNTAIN VIDEO	19	0	0	19	.127 %
SIK	16	27	0	43	.288 %
IS	7	0	0	7	.047 %
TATUS	18	0	0	18	.121 %
S. GAMES	4	67	0	71	.476 %
IDEO LOTTERY CONSULTANTS	1248	2047	0	3295	22.073 %
ILLIAMS GAMING	7	21	0	28	.188 %
OTALS	6955	7973	0	14928	

manupkb%

STATE OF MONTANA

DEPARTMENT OF JUSTICE

GAMBLING CONTROL DIVISION

Joseph P. Mazurek
Attorney General

2687 Airport Road
PO Box 201424
Helena, MT 59620-1424

September 21, 1994

REQUEST FOR PRELIMINARY PLANNING INFORMATION
FOR A VIDEO GAMBLING MACHINE CENTRAL ACCOUNTING SYSTEM (DIAL-UP)

You are invited to submit information for use by the State in preliminary planning in accordance with the requirements of this solicitation which are contained herein.

The information must be submitted in writing. Any/all questions concerning this request must also be submitted in writing. Firms submitting this information **must not** contact any state employee, verbally or in person in regard to this request. If such contact is made, the firm **will be disqualified from submitting a bid on any future Video Gambling Machine Central Accounting System (Dial-up) RFP by the State of Montana.** The Department will make available all questions and the Department's response to all firms.
The objective of this solicitation is to assist the Division in developing a proposal to study and define a computerized central accounting system network (dial-up) to submit to the 1995 Legislature. The Division's request for estimated costs will of necessity be a broad range and may not bear any relation to the eventual costs as required in the RFP. These cost estimates will be used for internal planning purposes only.

If you cannot respond to this request, please explain.

This solicitation does not commit the State of Montana to award a contract, to pay any costs incurred in the preparation of the information, or to procure or contract for articles of goods or services. The State reserves the right to accept or reject any or all statements received as a result of this request. Neither the State nor any agent thereof on behalf of the State will be obligated in any way by any response to this request.

SUBMISSION DEADLINE: **OCTOBER 17, 1994.**

MAIL TO: JANET JESSUP, ADMINISTRATOR, GAMBLING CONTROL DIVISION, PRELIMINARY PLANNING INFORMATION, 2687 AIRPORT RD., HELENA, MT 59620-1424

Tel. (406) 442-7325

GENERAL SYSTEM REQUIREMENTS

The objective of this solicitation is to assist the Division in developing a proposal to study and define a computerized central accounting system network (dial-up) to submit to the 1995 Legislature. The Division's request for estimated costs will of necessity be a broad range and may not bear any relation to the eventual costs as required in the RFP. These estimates will be used for internal planning purposes only.

The enclosed general information is provided in order to introduce the State's general needs and requirements. The following is not an all inclusive description of the network's requirements, but is merely general information for the purpose of this request.

The video gambling machine central accounting system network will connect with approximately 15,000 video gambling machines located in approximately 1,700 locations across the state. The types of machines and manufacturers and approximate numbers are included in **Appendix A** of this document.

The State of Montana allows up to 20 video gambling machines in any one location or premise, MONT. CODE ANN. § 23-5-611 **Machine permit qualifications -- limitations.**

Besides the central system hardware, either "turnkey" or customized to run on an existing State of Montana computer platform, the information shall include local controllers at each location, modems, remote polling sites if needed, intelligent communication up to each video gambling machine and estimates of annual support, staff and maintenance costs.

Existing State of Montana computers and their platforms are described as follows:

- **Department of Administration, Data Center, Site A, located in the Mitchell building, Helena, MT. APPENDIX B**

- **Department of Justice, Site B, located in the National Guard Armory, Helena, MT. APPENDIX C**

- **Department of Commerce, Montana Lottery, located on North Montana Avenue, Helena, MT. APPENDIX D**

- **Department of Justice, Gambling Control Division, located at 2687 Airport Rd., Helena, MT. Computer hardware includes UNIX NCR 3430, Dual Pentium, which is not anticipated to be available for this use.**

CENTRAL SYSTEM SOFTWARE AND HARDWARE

The State of Montana requests information on: **A.** central system hardware and software that could be customized to run on existing computer platforms **(Appendices B, C, D)** or an explanation as to why a central system could not be customized to fit on any of the existing platforms; **B.** a cost estimate for such a customized application; **C.** a comparison between a customized system and your "turn-key" system.

The information must include a central computer system which is capable of: **A.** polling each video gambling machine daily, **B.** maintaining video game machine information, **C.** providing management reports as necessary, **D.** verifying game EPROMs.

The central system must provide the ability to check the status of and disable, or enable a machine. In addition, all communication must provide a high level of security. The central system capabilities must include but not be limited to producing various management reports; detailed financial and security reports by city, county, premise/location, date/time, and machine. Encryption or other high level security must be provided.

In addition, the State of Montana also requests information/description of the hardware and software for a stand-alone "turn-key" central system with the same system capabilities as the customized system. A comparison between the "turn-key" and the customized system must be included.

Respondent must describe the central system's backup, recovery and disaster capabilities for both turn-key and customized systems.

LOCAL CONTROLLER

Each location may have up to 20 video gambling machines. Each local controller must be capable of intelligently communicating with 20 video gambling machines. The local controller must include but not be limited to intelligent communication capabilities with the central system, remote polling site (if utilized) and each video gambling machine. And it must be capable of disabling and enabling each machine, storing log entries, and storing information. If a local controller is not included please explain and/or describe an alternative.

MODEM REQUIREMENTS

Modems will be required to communicate from the location controller and the central system and from the central system to the location controller. All modems must comply with the FCC and shall be UL tested and approved. Modems shall be capable of, but not limited to, the following; auto dial and answer at central site and

location, connect to remote polling sites if recommended, encryption or other security measures and error checking.

PRELIMINARY COST ESTIMATES

Provide a cost estimate of both a turn-key stand-alone system and a customized system that utilizes one of the State's existing computer systems described in **APPENDICES B,C,D.** The cost estimate must include unit costs for the location controllers, remote polling sites(if required) and modems at approximately 1,700 locations. The preliminary cost estimate shall be provided in the form attached as **APPENDIX E.**

APPENDIX A

MANUFACTURER MARKET SHARE
FY 95 - ACTIVE MACHINES
As of 09/20/1994

MANUFACTURER	POKER	KENO	BINGO	TOTAL	%
American Coin	1	3	0	4	.027 %
Aristrocrat	50	0	0	50	.341 %
Bally Manufacturing	173	186	0	359	2.447 %
Big City Amusement	110	56	0	166	1.131 %
Big Ten Electronics	351	769	0	1120	7.634 %
Dynamo Corporation	296	365	0	661	4.505 %
Electrosport	935	0	0	935	6.373 %
International Game Technology	2106	2511	0	4617	31.470 %
Little Reno Corp.	3	0	0	3	.020 %
Merit Industries	1521	875	0	2396	16.332 %
Mills Jennings	65	904	0	969	6.605 %
Ram Star	2	21	0	23	.157 %
Larsen Vending	6	0	0	6	.041 %
Rocky Mountain Video	20	0	0	20	.136 %
SMK	19	31	0	50	.341 %
SMS	8	0	0	8	.055 %
Status	19	0	0	19	.130 %
U. S. Games	0	35	0	35	.239 %
Video Lottery Consultants	1213	1990	0	3203	21.832 %
Williams Gaming	7	20	0	27	.184 %
TOTALS	6905	7766	0	14671	

/manupkb%

APPENDIX B

DATA CENTER HARDWARE CONFIGURATION

Description of Site A located in the Mitchell Building, Helena, MT.

1 3090-400J CPU
512 MB CENTRAL STORAGE
512 MB EXPANDED STORAGE
64 PARALLEL CHANNELS
4 ESCON CHANNELS
PR/SM
DASD and TAPE PARALLEL CHANNELS OPERATE AT 4 MEGABYTES/SECOND

2 3390-2 DASD (97.5 GIGABYTES)
2 3390-A28 UNIT (30.0 GB)
3 3390-B2C UNITS (67.5 GB)
4 CHANNEL PATHS TO ALL 3390s
ATTACHED TO CPU VIA 3990 MODEL 3 DASD CONTROLLER

3 3380K DASD (120.0 GIGABYTES)
16 UNITS CONFIGURED IN FOUR STRINGS
4 CHANNEL PATHS TO ALL 3380K UNITS
ATTACHED TO CPU VIA 3990 MODEL 3 DASD CONTROLLER

4 DASD CONTROLLERS
2 3990 MODEL 3 DASD CONTROLLERS WITH 64 MB CACHE EACH
1 3990 MODEL 3 DASD CONTROLLER WITH 128 MB CACHE (TENTATIVE INSTALLATION DATE EARLY MARCH 1994)

5 3490 CARTRIDGE TAPE DRIVES WITH AUTOLOADERS
16 3490 CARTRIDGE DRIVES CONFIGURED IN TWO STRINGS
2 3490-A02 CARTRIDGE TAPE CONTROLLERS
4 3490-B04 UNITS (2 B04s attached to each A02)
2 ESCON CHANNELS TO EACH STRING
2 PARALLEL CHANNELS PATHS TO EACH STRING FOR BACKUP (DISABLED)

6 3420 TAPE DRIVES
6 3420 MODEL 8 DRIVES CONFIGURED IN TWO STRINGS
RECORDING DENSITY CAN BE EITHER 1600 OR 6250 BPI
2 CHANNEL PATHS TO EACH STRING
2 3803 MODEL 2 TAPE CONTROLLERS WITH 2 CHANNEL SWITCHERS
(We will be removing 3420 drives conversion to 3490s proceeds)

7 PRINTERS
2 4245 MODEL 20 IMPACT PRINTERS
3 3825 LASER PRINTERS
1 3816-1D LASER PRINTERS

8 TP CONTROLLER
1 3725 TP CONTROLLER
1 3745 TP CONTROLLER

9 OTHER CONTROLLERS
SEVERAL (16) 317x CONTROL UNITS

10 PR/SM FEATURE INSTALLED WITH 2 ACTIVE LPARS
PRODUCTION LPAR: 95% PROCESSOR; 256MB CENTRAL; 256MB EXPANDED
TEST LPAR: 5% PROCESSOR; 256MB CENTRAL; 256MB EXPANDED

APPENDIX C

DEPARTMENT OF JUSTICE DATA CENTER HARDWARE CONFIGURATION

Description of Site B located in the National Guard Armory, Helena, MT.

IBM 4381-92E
64 Mb Central Storage
12 Channels

3380 Standard DASD - 20.2 Gigabytes:
Eight (8) units configured in two strings.
Two (2) channel path to all 3380 standards.
Attached to CPU via 3380 Model-3 DASD controller.

Tape Drives:
Five (5) 3420 Model 6 and 8 configured in one string.
Recording density can be either 1600 or 6250 BPI.
One channel path to the string.

Printers:
One (1) 4245 Mod 12 Impact Printer.

Teleprocessing Controller:
One (1) 3725 communications controller.

Other Controllers:
One (1) 3274 control unit.

APPENDIX D
MONTANA LOTTERY HARDWARE CONFIGURATION

Description of Montana Instant Lottery System located at 2525 North Montana Avenue, Helena, Montana:

Stratus Computer Package
P51-V VAR Package:

Duplexed G860 CPU
Duplexed M603 32 MB Memory
Duplexed K420 IOP-II
2 D615 StrataPak Disk
3.2 GB (1 x 3.2) & K121 Adapter
1 T601-003 DAT Tape Drive & K122 Adapter
1 K103 Console/RSN Adapter
1 K104 Ethernet Adapter
1 B278-25 E-Net Cable
1 K111 Nul Async Adapter (4 ports)
1 K118-D12 16-port Async Adapter
1 V103A Console Terminal
1 B102-50 Terminal Cable

Additional Hardware:

K101 Multicomm Line Adapter Full Sync
K107-01 Pertec Tape Adapter including AW-000351-12 Cable
K107-01 Pertec Tape Adapter including AW-000351-15 Cable
K118-d12 16-port Async Adapter

Software:

S0000V1005 VOS Virtual Op System
Soo64V1005 PC/Connect - Host
S0066V1005 PC/Connect - 2
S0235V1005 OS TCP/IP Protocol
S0237V1005 OS TCP/IP Utuilities
S0003V1005 RJE
S0006V1006 TPF Trans. Proc
S0008V1005 FMS Forms Management
S0020V1005 Cobol
S0026V1005 Fortran
S0040V1005 Full Screen Editor
S0080V1005 Debugging Support
S0090V1005 DES Subroutines

Modem:

C319 High speed RNS Modem

APPENDIX E
PRELIMINARY COST ESTIMATES

1. Location controller and peripheral hardware (per unit):

2. Modem (per unit):

3. Remote Polling Site, with communications hardware and software:

4. Central Computer System, with communications hardware and software (Designate custom or turn-key):

5. Yearly maintenance and support:

6. Other (describe):

APPENDIX F
STATE OF MONTANA INFORMATION SERVICES
GENERAL STANDARDS

GENERAL:

The Department of Administration, Information Services Division (ISD) has been given the authority, by the Legislature to create information system standards for all state agencies. They approve virtually all hardware, and recently, software purchases. There is a high interest in improving data sharing and reducing redundancy in information systems throughout the state. It's ISD's responsibility to create standards and work with agencies to implement standards in order to achieve these goals. Vendors who are bidding on information systems for the state, need to be aware of these standards. The following is a quick overview of current standards.

WIDE AREA NETWORK:

The Department of Administration Information Services Division operates an IBM 3090 mainframe at the Mitchell Building located in the Capitol Complex. (See Appendix A for technical specifications) It's backed up by an IBM 4381 mainframe located in the basement of the Armory (corner of Main St. and Lyndale) that is operated by the Department of Justice.

These two mainframe systems are the focal points of the SNA Wide Area Network that covers the entire state. The physical network is a combination of state owned and leased T1, 56 Kb and 9600 bps phone lines. Attachmate's Extra! 3270 products are the 3270 standard for PC/LAN connectivity to the host mainframes.

This is primarily an SNA network but recently the state has incorporated several Cisco Multi-Protocol routers. These are used to provide TCP/IP connectivity to the major cities. It's been estimated that TCP/IP connectivity to all points in Montana will take 5 to 10 years.

Within the Capitol Complex (within a few blocks of the Capitol) and to a few other buildings in Helena there is a token ring backbone. This provides high speed direct connection to the mainframe as well as a direct connection for the many Novell file servers (approximately 50) in this area. The backbone is in the process of being upgraded to optical fiber. It runs at 16 megabits/second, while most local rings run at 4 mbps.

LOCAL AREA NETWORKS:

Novell Netware is the state standard for local area network operating systems. ISD provides support for Netware and Netware connectivity. Virtually all LANs are Netware or are being converted to Netware. Most are running version 3.11, although there are a few 4.0 installations. The physical network standard is token ring running on Type 3, Level 5 or Type 1 wire.

MID-RANGE SYSTEMS:

There is a state wide committee currently reviewing mid-range technology. They are looking primarily at the RS-6000, AS-400, and DEC Alpha systems. They hope to complete their work and make a recommendation to ISD for a state standard in this area within 8 months.

DATABASES:

The state mainframe uses IDMS from Computer Associates. Oracle has recently been named the new state standard for Relational Databases. In the PC area, the official state standard is R:base, but there is a wide variety of PC databases in use. The Department of Justice is primarily developing PC applications in Clipper, but there are plans to begin using Oracle.

ELECTRONIC MAIL:

The state standard is ZIP Mail. It was chosen primarily for it's ability to utilize the statewide SNA network, although it also works well on Novell file servers. ISD supports ZIP Mail connections to virtually any LAN that's connected to the Wide Area Network.

HARDWARE:

There are many state term contracts that have been set up for the purchase of PC's, printers, modems, etc. State agencies are required to purchase their equipment off of these term contracts.